

VILLAGE OF HESPERIA
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2008

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

| | | | |
|----------------------------------|---------------------------------|-------------------------------|----------------------|
| Unit Name Village of Hesperia | County Oceana | Type Village | MuniCode 64-3-010 |
| Opinion Date June 17, 2008 | Audit Submitted July 9, 2008 | Fiscal Year March 31, 2008 | |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

| |
|---|
| <input checked="" type="checkbox"/> 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input type="checkbox"/> 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets? |
| <input type="checkbox"/> 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input checked="" type="checkbox"/> 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? |
| <input checked="" type="checkbox"/> 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> 6. Was a public hearing on the budget held in accordance with State statute? |
| <input checked="" type="checkbox"/> 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input checked="" type="checkbox"/> 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act? |
| <input checked="" type="checkbox"/> 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.) |
| <input type="checkbox"/> 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input type="checkbox"/> 12. Is the local unit free of repeated reported deficiencies from previous years? |
| <input checked="" type="checkbox"/> 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA |
| <input checked="" type="checkbox"/> 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)? |
| <input checked="" type="checkbox"/> 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input checked="" type="checkbox"/> 17. To your knowledge, were the bank reconciliations that were reviewed performed timely? |
| <input type="checkbox"/> 18. Are there reported deficiencies? <input type="checkbox"/> 19. If so, was it attached to the audit report? |

| | |
|----------------------------|---------|
| General Fund Revenue: | 393,126 |
| General Fund Expenditure: | 385,526 |
| Major Fund Deficit Amount: | \$ 0.00 |

| | |
|--|---------|
| General Fund Balance: | 75,470 |
| Governmental Activities Long-Term Debt (see instructions): | 111,079 |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

| | | | | |
|---|--|--|-------------------|---------------------------|
| CPA (First Name) Calvin | Last Name Meeusen | Ten Digit License Number 1101006731 | | |
| CPA Street Address 600 S. Beacon Blvd., Suite 1A | City Grand Haven | State MI | Zip Code 49417 | Telephone 616-846-6210 |
| CPA Firm Name Calvin D. Meeusen, C.P.A., PLLC | Unit's Street Address 600 S. Beacon Blvd., Suite 1A | City Grand Haven | Zip Code 49417 | |

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Village of Hesperia
List of Principal Individuals

| | |
|------------------|-----------|
| Roger Kraus | President |
| Stacy Carlson | Treasurer |
| Linda Stenberg | Clerk |
| Scott Kroepel | Trustee |
| Mari Ann McGahan | Trustee |
| Arthur Raymond | Trustee |
| Toni Rumsey | Trustee |
| William Semans | Trustee |
| Richard Williams | Trustee |

Village of Hesperia
Management's Discussion and Analysis
March 31, 2008

Using this Management's Discussion and Analysis

This annual report is intended to supplement the Village's financial statements for fiscal year ending March 31, 2008. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance and the Governmental Fund Balance Sheet) tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's total net assets are \$3,056,040 as of March 31, 2008. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 5.3% of that total. The current level of unrestricted net assets for our governmental activities stands at \$112,185 or about 24% of current year operating expenditures.

Government-Wide Financial Analysis:

The first table presented is a summary of the government-wide statement of net assets for the Village. The net assets may be used as an indicator of a government's financial health. As of March 31, 2008, the Village's net assets from governmental activities totaled \$1,110,458 (36%) and \$1,945,582 (64%) from business-type activities, creating a total government-wide net asset total of \$3,056,040.

In examining the composition of these net assets, the reader should note that governmental activities net assets are primarily invested in capital assets (i.e., bridges, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

Table 1
Village of Hesperia Net Assets

| | <u>Governmental</u> <u>Activities</u> | | <u>Business-Type</u> <u>Activities</u> | | <u>Total</u> | |
|---------------|--|-------------|---|-------------|--------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| <u>Assets</u> | | | | | | |
| Current and | | | | | | |
| other assets | \$ 144,272 | \$ 189,520 | \$ 66,030 | \$ 1,087 | \$ 210,302 | \$ 190,607 |

Village of Hesperia
Management's Discussion and Analysis
March 31, 2008

Table 1
Village of Hesperia Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|------------------------------------|--------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| <u>Assets-Continued</u> | | | | | | |
| Capital assets, net of accumulated depreciation | <u>1,109,352</u> | <u>194,002</u> | <u>2,585,854</u> | <u>2,692,725</u> | <u>3,695,206</u> | <u>2,886,727</u> |
| Total | 1,253,624 | 383,522 | 2,651,884 | 2,693,812 | 3,905,508 | 3,077,334 |
| <u>Liabilities</u> | | | | | | |
| Current | <u>46,212</u> | <u>32,998</u> | <u>82,956</u> | <u>81,830</u> | <u>129,168</u> | <u>114,828</u> |
| Noncurrent | <u>96,954</u> | <u>92,696</u> | <u>623,346</u> | <u>690,910</u> | <u>720,300</u> | <u>783,606</u> |
| Total | 143,166 | 125,694 | 706,302 | 772,740 | 849,468 | 898,434 |
| <u>Net Assets</u> | | | | | | |
| Capital Assets, Net of Debt | <u>998,273</u> | <u>90,232</u> | <u>1,895,550</u> | <u>1,934,857</u> | <u>2,893,823</u> | <u>2,025,089</u> |
| Unrestricted (deficit) | <u>112,185</u> | <u>167,596</u> | <u>50,032</u> | <u>(13,785)</u> | <u>162,217</u> | <u>153,811</u> |
| Total net assets | <u>\$1,110,458</u> | <u>\$ 257,828</u> | <u>\$1,945,582</u> | <u>\$1,921,072</u> | <u>\$3,056,040</u> | <u>\$2,178,900</u> |

Cash remains very tight in all of the funds as shown below. The cash in the Major Streets Fund is entirely committed to the Michigan Street bridge project.

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|-------------------------|-------------------------|
| General Fund | \$ 45,454 | \$ 16,875 |
| Major Street Fund - restricted | 1,339 | 65,301 |
| Local Street Fund - restricted | 21,556 | 18,466 |
| Sewer Fund | 40,596 | 23,205 |
| Water Fund | <u>18,831</u> | <u>(16,373)</u> |
| | <u>\$127,776</u> | <u>\$107,474</u> |

The total of the Village's cash increased by \$20,302 for the year ended March 31, 2008.

Governmental Activities

Governmental activities increased the Village's net assets by \$852,630, accounting for all of the total increase in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

Village of Hesperia
Management's Discussion and Analysis
March 31, 2008

Governmental Activities-Continued

The Village's total revenues in the General Fund increased by approximately 4.0% or \$13,667 from the preceding year. Expenses decreased approximately 9% on an overall basis. This decrease was mostly attributable to general spending restraints.

Business-Type Activities

The Village's business-type activities consist of the Sewer and Water Funds. Operating revenues for business-type activities were \$322,656. We provide sewage treatment to approximately 95% of village residents through the Newaygo County wastewater treatment plant. We provide water to approximately 90% of village residents, which comes from the Village of Hesperia water system. The rate increases for the water and sewer system were implemented in April, 2008. We hope that this action will ensure the Villages continuing capability to provide these services. We do not expect to be doing any major projects or upgrades in the coming fiscal year.

Table 2
Village of Hesperia Changes in Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------|------------------------------------|----------------|-------------------------------------|----------------|------------------|----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| <u>Revenues</u> | | | | | | |
| Program | | | | | | |
| Charges for Services | 4,482 | 8,687 | 322,656 | 293,668 | 327,138 | 302,355 |
| General | | | | | | |
| Property taxes | 255,198 | 236,985 | - | - | 255,198 | 236,985 |
| State revenue sharing | 189,326 | 189,925 | - | - | 189,326 | 189,925 |
| State grants | 835,390 | - | - | - | 835,390 | - |
| Rentals | 8,381 | 12,278 | - | - | 8,381 | 12,278 |
| Miscellaneous | 27,123 | 23,139 | 17,555 | 6,352 | 44,678 | 29,491 |
| Total | 1,319,900 | 471,014 | 340,211 | 300,020 | 1,660,111 | 771,034 |

Village of Hesperia
Management's Discussion and Analysis
March 31, 2008

Table 2-Continued
Village of Hesperia Changes in Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--------------------------------------|------------------------------------|--------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| <u>Expenses</u> | | | | | | |
| General government | 137,632 | 106,672 | - | - | 137,632 | 106,672 |
| Public safety | 153,304 | 147,600 | - | - | 153,304 | 147,600 |
| Public works | 153,436 | 136,554 | - | - | 153,436 | 136,554 |
| Recreation and culture | 22,898 | 23,954 | - | - | 22,898 | 23,954 |
| Sewer fund | - | - | 214,942 | 187,508 | 214,942 | 187,508 |
| Water fund | - | - | 100,759 | 112,097 | 100,759 | 112,097 |
| Total | <u>467,270</u> | <u>414,780</u> | <u>315,701</u> | <u>299,605</u> | <u>782,971</u> | <u>714,385</u> |
| Increase (Decrease) in Net Assets | 852,630 | 56,234 | 24,510 | 415 | 877,140 | 56,649 |
| Net Assets at March 1 | <u>257,828</u> | <u>201,594</u> | <u>1,921,072</u> | <u>1,920,657</u> | <u>2,178,900</u> | <u>2,122,251</u> |
| Net Assets at March 31 | <u>\$1,110,458</u> | <u>\$ 257,828</u> | <u>\$1,945,582</u> | <u>\$1,921,072</u> | <u>\$3,056,040</u> | <u>\$2,178,900</u> |

The Village's Funds

An analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds for 2008 include the General Fund, Major Streets, Local Streets, and Sewer and Water Funds.

We are now maintaining a positive cash balance in our street funds. The Michigan Street bridge project is completed. We expect that all amounts due on that project have been paid. Any additional amounts owed would be minimal.

The General Fund pays the Village's general operating expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Village Council did not make any budget amendments to take into account events during the year. We implemented a new budget format for the fiscal year 2007-2008 and will continue this for the fiscal year 2008-2009.

Village expenditures overall were under budget, resulting in total expenditures of \$7,600 under budget. The General Fund's fund balance increased from \$67,870 a year ago to \$75,470 at March 31, 2008. Revenues were slightly higher than projections.

Village of Hesperia
Management's Discussion and Analysis
March 31, 2008

Capital Asset and Debt Administration

At March 31, 2008 the Village had \$6,446,828 (net of accumulated depreciation of \$2,751,622) invested in a broad range of capital assets including land, land improvements, buildings, machinery and equipment and water and sewer systems. Our Water Tower note payable is in the form of an installment note with Shelby State Bank and is being paid off over a five year period. We continue to make payments on two revenue bonds - one each in water and sewer, an intercounty drain note and one installment note for our new police cruiser. All of the payments were paid on time and in full.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for the next fiscal year projects property taxes to be approximately the same from the current year. State revenue sharing allocations are a budgetary concern at this time. As you may know, the Michigan Legislature has eliminated the Single Business Tax and replaced it with a new Michigan Business Tax. It is uncertain at this time if the Michigan Business Tax will bring in less or more money than the old Single Business Tax. The State of Michigan has experienced significant budgeting problems and as they look for solutions, state grants may decrease. The amount of revenue sharing is uncertain but is expected to be similar to last years amount. Salaries are normally the largest total expenditure of all funds. We expect wage expense to decrease slightly.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and other interested parties with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact us at (231) 854-6205.

CALVIN D. MEEUSEN, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

600 S. BEACON BLVD., SUITE 1A • GRAND HAVEN, MI 49417-2178
(616) 846-6210 FAX (616) 846-5111

348 S. WAVERLY RD., SUITE 126 • HOLLAND, MI 49424-8102
(616) 395-8477

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Village Council
Village of Hesperia, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Hesperia, Michigan (the Village) as of and for the year ended March 31, 2008, which, collectively, comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying required supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. My audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hesperia basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated June 17, 2008, on my consideration of the Village of Hesperia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

 C.P.A. PLLC

Calvin D. Meeusen C.P.A., PLLC

Grand Haven, Michigan

June 17, 2008

Village of Hesperia
STATEMENT OF NET ASSETS

March 31, 2008

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---------------------------------|------------------------------------|-------------------------------------|------------------|
| ASSETS | | | |
| Cash | \$ 68,349 | 59,427 | 127,776 |
| Receivables | | | |
| Taxes | 13,752 | - | 13,752 |
| Accounts | - | 40,608 | 40,608 |
| Due from state | 28,166 | - | 28,166 |
| Internal balances (net) | 34,005 | (34,005) | - |
| Capital assets, net | <u>1,109,352</u> | <u>2,585,854</u> | <u>3,695,206</u> |
| Total assets | <u>1,253,624</u> | <u>2,651,884</u> | <u>3,905,508</u> |
| LIABILITIES | | | |
| Accounts payable | 31,219 | 9,443 | 40,662 |
| Due to other governmental units | - | 3,430 | 3,430 |
| Accrued interest | - | 3,125 | 3,125 |
| Accrued liabilities | 868 | - | 868 |
| Non-current liabilities | | | |
| Bonds due within one year | 14,125 | 66,958 | 81,083 |
| Bonds due in more than one year | <u>96,954</u> | <u>623,346</u> | <u>720,300</u> |
| Total liabilities | <u>143,166</u> | <u>706,302</u> | <u>849,468</u> |
| NET ASSETS | | | |
| Invested in capital assets | | | |
| net of related debt | 998,273 | 1,895,550 | 2,893,823 |
| Unreserved | <u>112,185</u> | <u>50,032</u> | <u>162,217</u> |
| Total Net Assets | <u>1,110,458</u> | <u>1,945,582</u> | <u>3,056,040</u> |

The Notes to Financial Statements are an integral part of this statement.

Village of Hesperia

STATEMENT OF ACTIVITIES

Year ended March 31, 2008

| | Program Revenue | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|-----------------|----------------------|---|--------------------------|------------------|
| | Expenses | Charges for services | Governmental activities | Business-type activities | Total |
| Primary Government | | | | | |
| Governmental activities | | | | | |
| General government | 137,632 | 493 | (137,139) | - | (137,139) |
| Public safety | 153,304 | 3,989 | (149,315) | - | (149,315) |
| Public works | 153,436 | - | (153,436) | - | (153,436) |
| Recreation and culture | <u>22,898</u> | <u>-</u> | <u>(22,898)</u> | <u>-</u> | <u>(22,898)</u> |
| Total governmental activities | 467,270 | 4,482 | (462,788) | - | (462,788) |
| Business-type activities | | | | | |
| Sewer | 214,942 | 178,454 | - | (36,488) | (36,488) |
| Water | <u>100,759</u> | <u>144,202</u> | <u>-</u> | <u>43,443</u> | <u>43,443</u> |
| Total business-type activities | <u>315,701</u> | <u>322,656</u> | <u>-</u> | <u>6,955</u> | <u>6,955</u> |
| Total primary government | <u>782,971</u> | <u>327,138</u> | <u>(462,788)</u> | <u>6,955</u> | <u>(455,833)</u> |
| General revenues | | | | | |
| Property taxes | | | 255,198 | - | 255,198 |
| State revenue sharing | | | 189,326 | - | 189,326 |
| Investment earnings | | | 10,094 | - | 10,094 |
| Rentals | | | 8,381 | - | 8,381 |
| State grants | | | 835,390 | - | 835,390 |
| Miscellaneous | | | <u>17,029</u> | <u>17,555</u> | <u>34,584</u> |
| Total general revenue and special items | | | <u>1,315,418</u> | <u>17,555</u> | <u>1,332,973</u> |
| Change in net assets | | | 852,630 | 24,510 | 877,140 |
| Net assets at April 1, 2007 | | | <u>257,828</u> | <u>1,921,072</u> | <u>2,178,900</u> |
| Net assets at March 31, 2008 | | | <u>1,110,458</u> | <u>1,945,582</u> | <u>3,056,040</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia
BALANCE SHEET
GOVERNMENTAL FUNDS

March 31, 2008

| ASSETS | General Fund | Major Streets | Local Streets | Total Governmental Funds |
|-----------------------------------|------------------|------------------|------------------|--------------------------------|
| Cash | \$ 45,454 | \$ 1,339 | \$ 21,556 | \$ 68,349 |
| Taxes Receivable | 13,752 | - | - | 13,752 |
| Due from state | 13,075 | 10,533 | 4,558 | 28,166 |
| Due from other funds | <u>34,005</u> | <u>-</u> | <u>-</u> | <u>34,005</u> |
| Total Assets | <u>\$106,286</u> | <u>\$ 11,872</u> | <u>\$ 26,114</u> | <u>\$ 144,272</u> |
| | | | | |
| LIABILITIES AND FUND EQUITY | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 29,948 | \$ 1,214 | \$ 57 | \$ 31,219 |
| Accrued liabilities | <u>868</u> | <u>-</u> | <u>-</u> | <u>868</u> |
| Total Liabilities | <u>30,816</u> | <u>1,214</u> | <u>57</u> | <u>32,087</u> |
| Fund equity: | | | | |
| Fund balance | | | | |
| Undesignated | <u>75,470</u> | <u>10,658</u> | <u>26,057</u> | <u>112,185</u> |
| Total Liabilities and Fund Equity | <u>\$106,286</u> | <u>\$ 11,872</u> | <u>\$ 26,114</u> | <u>\$ 144,272</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2008

Total fund balance-governmental funds \$ 112,185

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

| | | |
|--------------------------|------------------|-----------|
| Cost of capital assets | \$ 1,472,413 | |
| Accumulated depreciation | <u>(363,061)</u> | 1,109,352 |

Long term liabilities, including bonds and notes payable, are not
due and payable in the current period and therefore, are not reported
in the funds. (111,079)

| | |
|---|--------------------|
| Net assets of governmental activities in the Statement of Net Assets | <u>\$1,110,458</u> |
|---|--------------------|

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended March 31, 2008

| | General Fund | Major Streets | Local Streets | Total Governmental Funds |
|---|------------------|------------------|------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$255,198 | \$ - | \$ - | \$ 255,198 |
| State revenue sharing | 100,802 | 62,692 | 25,832 | 189,326 |
| State grants | - | 835,390 | - | 835,390 |
| Interest and rentals | 18,475 | - | - | 18,475 |
| Other revenue | <u>18,651</u> | <u>1,430</u> | <u>1,430</u> | <u>21,511</u> |
| TOTAL REVENUES | 393,126 | 899,512 | 27,262 | 1,319,900 |
| Expenditures | | | | |
| Current: | | | | |
| Legislative | 37,365 | - | - | 37,365 |
| General government | 95,659 | - | - | 95,659 |
| Public safety | 158,691 | - | - | 158,691 |
| Public works | 70,913 | 965,640 | 24,145 | 1,060,698 |
| Recreation and parks | <u>22,898</u> | <u>-</u> | <u>-</u> | <u>22,898</u> |
| TOTAL EXPENDITURES | <u>385,526</u> | <u>965,640</u> | <u>24,145</u> | <u>1,375,311</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 7,600 | (66,128) | 3,117 | (55,411) |
| Other financing sources (uses) | | | | |
| Operating transfers in (out) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 7,600 | (66,128) | 3,117 | (55,411) |
| Fund balance - April 1, 2007 | <u>67,870</u> | <u>76,786</u> | <u>22,940</u> | <u>167,596</u> |
| Fund balance - March 31, 2008 | <u>\$ 75,470</u> | <u>\$ 10,658</u> | <u>\$ 26,057</u> | <u>\$ 112,185</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2008

Net change in fund balances-total governmental funds: \$ (55,411)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
in the Statement of Activities; these costs are depreciated over their
estimated useful lives.

| | | |
|----------------------|----------------|---------|
| Depreciation expense | \$ (39,461) | |
| Capital outlay | <u>932,741</u> | 893,280 |

| | |
|---|---------------|
| Repayment of principal on long term debt is an expenditure in the governmental funds but the payment reduces long term liabilities in the Statement of Net Assets | <u>14,761</u> |
|---|---------------|

| | |
|---|-------------------|
| Change in net assets of governmental activities | <u>\$ 852,630</u> |
|---|-------------------|

The accompanying notes are an integral part of this statement.

Village of Hesperia
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2008

| ASSETS | <u>Enterprise Funds</u> | | |
|--|-------------------------|-------------------|--------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
| Current Assets | | | |
| Cash | \$ 40,596 | \$ 18,831 | \$ 59,427 |
| Accounts receivable | 22,341 | 18,267 | 40,608 |
| Due from other funds | <u>36,000</u> | <u>-</u> | <u>36,000</u> |
| Total current assets | 98,937 | 37,098 | 136,035 |
| Non Current Assets | | | |
| Property, plant and equipment | 4,334,854 | 639,561 | 4,974,415 |
| Less accumulated depreciation | <u>(2,103,967)</u> | <u>(284,594)</u> | <u>(2,388,561)</u> |
| Capital assets, net | <u>2,230,887</u> | <u>354,967</u> | <u>2,585,854</u> |
| Total Assets | 2,329,824 | 392,065 | 2,721,889 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts payable and other liabilities | 5,607 | 3,836 | 9,443 |
| Due to other governmental units | - | 3,430 | 3,430 |
| Due to other funds | - | 70,005 | 70,005 |
| Accrued interest | 3,125 | - | 3,125 |
| Revenue bonds payable, due within one year | <u>45,000</u> | <u>21,958</u> | <u>66,958</u> |
| Total current liabilities | 53,732 | 99,229 | 152,961 |
| Non Current Liabilities | | | |
| Revenue bonds payable, less amounts due in one year | 559,180 | 64,166 | 623,346 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 1,626,707 | 268,843 | 1,895,550 |
| Unreserved (deficit) | <u>90,205</u> | <u>(40,173)</u> | <u>50,032</u> |
| Total net assets | <u>\$1,716,912</u> | <u>\$ 228,670</u> | <u>\$1,945,582</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year ended March 31, 2008

| | <u>Enterprise Funds</u> | | |
|------------------------------------|-------------------------|-------------------|--------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
| Operating revenues | | | |
| Sales | \$ <u>178,454</u> | \$ <u>144,202</u> | \$ <u>322,656</u> |
| Operating Expenses | | | |
| Salaries and Wages | 26,962 | 28,914 | 55,876 |
| Supplies | 1,630 | 1,792 | 3,422 |
| Equipment Rental | 1,867 | 4,212 | 6,079 |
| Professional Services | 17,149 | 14,223 | 31,372 |
| Insurance | 14,862 | 12,004 | 26,866 |
| Utilities | 11,378 | 8,953 | 20,331 |
| Repairs and Maintenance | 540 | 6,782 | 7,322 |
| Education and Training | - | 1,015 | 1,015 |
| Depreciation | 93,883 | 12,989 | 106,872 |
| Miscellaneous | <u>17,281</u> | <u>-</u> | <u>17,281</u> |
| Total Operating Expenses | <u>185,552</u> | <u>90,884</u> | <u>276,436</u> |
| Operating Income (Loss) | (7,098) | 53,318 | 46,220 |
| Non operating Income (Expenses) | | | |
| Other Income | 6,523 | 11,032 | 17,555 |
| Interest Expense | (18,918) | (2,879) | (21,797) |
| Misappropriation loss (Note K) | <u>(10,472)</u> | <u>(6,996)</u> | <u>(17,468)</u> |
| | <u>(22,867)</u> | <u>1,157</u> | <u>(21,710)</u> |
| Net Income (Loss) | (29,965) | 54,475 | 24,510 |
| Retained Earnings - April 1, 2007 | <u>1,746,877</u> | <u>174,195</u> | <u>1,921,072</u> |
| Retained Earnings - March 31, 2008 | <u>\$1,716,912</u> | <u>\$228,670</u> | <u>\$1,945,582</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF CASH FLOWS

Proprietary Funds

Year ended March 31, 2008

| | <u>Enterprise Funds</u> | | |
|---|-------------------------|------------------|-------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
| Cash Flows From Operating Activities | | | |
| Receipts from customers | \$ 185,117 | \$ 135,588 | \$ 320,705 |
| Payments to suppliers | (61,323) | (46,202) | (107,525) |
| Payments to employees | <u>(27,224)</u> | <u>(29,225)</u> | <u>(56,449)</u> |
| Net cash provided by operating activities | 96,570 | 60,161 | 156,731 |
| Cash Flows From Noncapital Financing Activities | | | |
| Operating subsidies and transfers to other funds | - | - | - |
| Cash Flows From Capital and Related Financing Activities | | | |
| Principal and interest paid on capital debt | (64,231) | (24,843) | (89,074) |
| Other receipts | 5,923 | 11,032 | 16,955 |
| Other payments | - | (4,150) | (4,150) |
| Misappropriation loss (Note K) | (10,472) | (6,996) | (17,468) |
| Payments to other funds | <u>(10,399)</u> | <u>-</u> | <u>(10,399)</u> |
| Net cash used by capital and related financing activities | <u>(79,179)</u> | <u>(24,957)</u> | <u>(104,136)</u> |
| Net increase (decrease) in cash | 17,391 | 35,204 | 52,595 |
| Cash at April 1, 2007 | <u>23,205</u> | <u>(16,373)</u> | <u>6,832</u> |
| Cash at March 31, 2008 | <u>40,596</u> | <u>18,831</u> | <u>59,427</u> |
| Reconciliation of Operating Income to Net Cash | | | |
| Provided by Operating Activities | | | |
| Operating Income (Loss) | (7,098) | 53,318 | 46,220 |
| Adjustments to Reconcile Operating Income to Net Cash | | | |
| Provided by Operating Activities | | | |
| Depreciation expense | 93,883 | 12,989 | 106,872 |
| Change in Assets and Liabilities: | | | |
| Receivables-net | 6,664 | (8,613) | (1,949) |
| Accounts payable | <u>3,121</u> | <u>2,467</u> | <u>5,588</u> |
| Net Cash Provided by Operating Activities | \$ <u>96,570</u> | \$ <u>60,161</u> | \$ <u>156,731</u> |

The accompanying notes are an integral part of this statement.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Hesperia (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's policies are described below.

1. Reporting Entity

The Village of Hesperia is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks, recreation and general administrative services.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and user charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state revenue sharing and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on streets classified as local streets.

The Village reports the following major proprietary funds:

Enterprise Funds

The Sewer Fund accounts for the activities of the sewage collection system. The main source of revenue for the Sewer Fund comes from user charges.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Enterprise Funds-Continued

The Water Fund accounts for the activities of the water distribution system. The main source of revenue for the Water Fund also comes from user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the Village's sewer and water functions and various other functions of the Village, when applicable. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2008

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, money market demand deposits and certificates of deposit. The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. The Village has adopted an investment policy that is more restrictive than the above. See Note C2.

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

b. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property and are levied on December 31 and are payable through September 15. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government. Uncollectable real property taxes as of the following March 1 are turned over by the Village to the County's for collection. The County's advances the Village all these delinquent property taxes. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (60 days). The 2007 state taxable value for real and personal property of the Village totalled approximately \$17,369,079.

Collections of these taxes are accounted for in the General Fund and the Village Streets Fund. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 14.4303 mills per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general government services for the year ended March 31, 2008 was 14.4303 mills.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

c. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements, if any, are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 15-50 |
| Infrastructure | 20-40 |
| Land improvements | 10-20 |
| Equipment | 5-10 |

d. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Generally, employees must use earned vacation time in the current year and any unused benefits are forfeited. Sick leave is accumulated at the rate of one-half day per month, up to a maximum of 45 days, subject to certain conditions. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

e. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

f. Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

g. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through passage of a resolution.
- d. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- e. Appropriations for the General Fund lapse at the end of the fiscal year.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

Budgeted amounts are as originally adopted, or as amended by the Village Council as of March 31, 2008.

2. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There has not been any uncovered or unreimbursed claims in any of the past three years.

NOTE C - DEPOSITS

1. Deposits

All deposits are in a single financial institution and are carried at cost; the deposits are composed of a checking account, a money market savings account, and a certificate of deposit.

As of March 31, 2008, the Village's carrying amount of deposits was \$127,776, and the bank balance was \$132,892. All of the bank balance was covered by federal depository insurance.

2. Investment Policy

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; prime commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village in accordance with Public Act 20 of 1943 (as amended) authorizes investments in demand depository accounts, certificates of deposit and savings accounts.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE C - DEPOSITS-CONTINUED

3. Summary

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> |
|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Cash and cash equivalents | \$ <u>68,349</u> | \$ <u>59,427</u> | \$ <u>127,776</u> |

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

| <u>Governmental Activities</u> | <u>Balance April 1, 2007</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance March 31, 2008</u> |
|---|----------------------------------|------------------|-------------------|-----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 8,300 | \$ - | \$ - | \$ 8,300 |
| Construction in Progress | 32,413 | 932,741 | (965,154) | - |
| Less Assets Capitalized | <u>-</u> | <u>(932,741)</u> | <u>932,741</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>40,713</u> | <u>-</u> | <u>(32,413)</u> | <u>8,300</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 172,769 | - | - | 172,769 |
| Land improvements | 50,919 | 965,154 | - | 1,016,073 |
| Machinery & Equipment | <u>253,201</u> | <u>22,070</u> | <u>-</u> | <u>275,271</u> |
| Total capital assets, being depreciated | 476,889 | 987,224 | - | 1,464,113 |
| Less accumulated depreciation for: | | | | |
| Buildings | 79,017 | 4,608 | - | 83,625 |
| Land improvements | 40,836 | 16,274 | - | 57,110 |
| Machinery & Equipment | <u>203,747</u> | <u>18,579</u> | <u>-</u> | <u>222,326</u> |
| Total accumulated depreciation | <u>323,600</u> | <u>39,461</u> | <u>-</u> | <u>363,061</u> |
| Total capital assets, being depreciated, net | <u>153,289</u> | <u>947,763</u> | <u>-</u> | <u>1,101,052</u> |
| Capital Assets, net | <u>194,002</u> | <u>947,763</u> | <u>(32,413)</u> | <u>1,109,352</u> |

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE D-CAPITAL ASSETS - CONTINUED

| <u>Business-Type Activities:</u> | <u>Balance April 1, 2007</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance March 31, 2008</u> |
|---|----------------------------------|-------------------|-------------------|-----------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | <u>58,155</u> | <u>-</u> | <u>-</u> | <u>58,155</u> |
| Total capital assets, not being depreciated | <u>58,155</u> | <u>-</u> | <u>-</u> | <u>58,155</u> |
| Capital assets being depreciated: | | | | |
| Sewer Fund | | | | |
| Treatment Plant and Collection System | 4,269,332 | - | - | 4,269,332 |
| Machinery & Equipment | 11,367 | - | - | 11,367 |
| Water Fund | | | | |
| Buildings | 8,805 | - | - | 8,805 |
| Water Distribution System | 615,594 | - | - | 615,594 |
| Machinery & Equipment | <u>11,162</u> | <u>-</u> | <u>-</u> | <u>11,162</u> |
| Total capital assets, being depreciated | <u>4,916,260</u> | <u>-</u> | <u>-</u> | <u>4,916,260</u> |
| Less accumulated depreciation: | | | | |
| Sewer Fund | | | | |
| Treatment Plant & Collection System | 1,998,717 | 93,883 | - | 2,092,600 |
| Machinery & Equipment | 11,367 | - | - | 11,367 |
| Water Fund | | | | |
| Buildings | 4,419 | 193 | - | 4,612 |
| Water Distribution System | 256,024 | 12,796 | - | 268,820 |
| Machinery & Equipment | <u>11,162</u> | <u>-</u> | <u>-</u> | <u>11,162</u> |
| Total accumulated depreciation | <u>2,281,689</u> | <u>106,872</u> | <u>-</u> | <u>2,388,561</u> |
| Total capital assets, being depreciated, net | <u>2,634,571</u> | <u>106,872</u> | <u>-</u> | <u>2,527,699</u> |
| Capital assets, net | <u>\$ 2,692,726</u> | <u>\$ 106,872</u> | <u>\$ -</u> | <u>\$2,585,854</u> |

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE D-CAPITAL ASSETS - CONTINUED

Government activities:

Depreciation

Depreciation expense was charged to functions as follows:

| | |
|--------------------|------------------|
| General government | \$ 4,608 |
| Public safety | 9,374 |
| Public works | <u>25,479</u> |
| | <u>\$ 39,461</u> |

Business-type activities:

Depreciation

Depreciation expense was charged to functions as follows:

| | |
|-------|------------------|
| Sewer | \$ 93,883 |
| Water | <u>12,989</u> |
| | <u>\$106,872</u> |

NOTE E - INTERFUND RECEIVABLES AND PAYABLES

Details of interfund receivables and payables at March 31, 2008, are as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------|----------------------------------|-------------|------------------------------|
| General | \$ 34,005 | Water | \$ 34,005 |
| Sewer | <u>36,000</u> | Water | <u>36,000</u> |
| | <u>\$ 70,005</u> | | <u>\$ 70,005</u> |

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE F - DEFINED CONTRIBUTION PENSION PLAN

The Village provides pension benefits to all of its appointed officers and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Village contributes 7% of employees gross earnings and employees may make voluntary contributions of 1% to 10% of after-tax earnings. 100% of the benefits are vested immediately.

NOTE G - HEALTH INSURANCE

The Village pays an allowance for health insurance premiums as an employee benefit on behalf of all appointed officials and full-time employees through Municipal Benefits Services for Blue Cross/Blue Shield. In lieu of taking health insurance benefits, employees have the option to receive additional wages of \$100 per month.

NOTE H - LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2008:

| | <u>Balance</u> <u>April 1, 2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>March 31, 2008</u> | <u>Due within</u> <u>one year</u> |
|---|--|------------------|-------------------|---|--------------------------------------|
| Governmental Activities | | | | | |
| General obligation bonds | \$ 99,827 | \$ - | \$ 7,131 | \$ 92,696 | \$ 7,131 |
| Installment purchase agreements | <u>3,943</u> | <u>22,070</u> | <u>7,630</u> | <u>18,383</u> | <u>6,994</u> |
| Governmental activity long-term liabilities | \$ <u>103,770</u> | \$ <u>22,070</u> | \$ <u>14,761</u> | \$ <u>111,079</u> | \$ <u>14,125</u> |
| Business-type Activities | | | | | |
| Revenue bonds and other debt | \$ <u>757,868</u> | \$ <u>-</u> | \$ <u>67,564</u> | \$ <u>690,304</u> | \$ <u>75,273</u> |

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE H - LONG-TERM DEBT-CONTINUED

Governmental activities:

General obligation bonds:

Intercounty Drain Note - The intercounty drain project was completed in fiscal year 2002 and the subsequent note payable was established to pay for the Village's portion. The note is payable to the Oceana County Drain Commission over a 20 year period with an interest rate of 5.25% per annum. The first payment was made January 22, 2002 and payments will be made annually until December 1, 2020. The note is backed by the full faith and credit of the Village.

\$ 92,696

Installment purchase agreement:

Police Vehicle Note - This note is a capital lease with quarterly payments of \$2,009 at 5.15% per annum. The lease is scheduled to be paid in full in September 2010. The lease is secured by the vehicle.

\$ 18,383

Business-type activities:

Revenue bonds and other debt

1978 Sewer System Reserve Bond

The Village Council entered into a contract with the County of Newaygo relating to the acquisition, construction, operation and financing of a sanitary sewer system. The annual principal payments of \$25,000 are due January 1 each year with the final payment due in the year 2018. Interest payments at the rate of 5% are due semiannually on January 1 and July 1.

\$ 250,000

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE H - LONG-TERM DEBT-CONTINUED

2005 Contract with Newaygo County

On June 23, 2005 the Village entered into a contract with Newaygo County for the construction of a sewer lift station and project upgrade in the amount of \$414,780. Principal payments are due April 1 of each year varying from \$20,000 to \$30,000 with the final payment due in the year 2025. Interest payments are due semi-annually at a rate of 1.625% per annum and are due October 1 and April 1.

\$ 354,180

Water Tower Note

On October 6, 2005 the Village borrowed \$150,208 from Shelby State Bank to retire a previous bond obligation which was issued for the purpose of constructing a water tower. Principal and interest payments are due quarterly. The interest rate is 3.8% annually. The last payment is due in October, 2010.

86,124

\$690,304

Annual debt service requirements to maturity for debt outstanding as of March 31, 2008 is as follows:

| Year ending March 31, 2008 | Governmental activities | | Business-type activities | |
|-------------------------------|----------------------------|------------------|-----------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 14,125 | \$ 5,922 | \$ 75,273 | \$ 20,491 |
| 2010 | 14,778 | 4,882 | 76,449 | 17,740 |
| 2011 | 11,052 | 4,215 | 74,402 | 14,953 |
| 2012 | 7,131 | 3,744 | 50,000 | 12,834 |
| 2013 | 7,131 | 3,378 | 50,000 | 11,178 |
| 2014-2018 | 35,653 | 11,236 | 250,000 | 31,045 |
| 2019-2023 | <u>21,209</u> | <u>2,247</u> | <u>114,180</u> | <u>5,263</u> |
| Total | <u>\$111,079</u> | <u>\$ 35,624</u> | <u>\$ 690,304</u> | <u>\$ 113,504</u> |

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2008

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS-CONT.

In the body of the financial statements, the Village's actual expenditures for the budgetary funds have been shown in a line item basis. The budget was adopted on the activity basis.

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (ML 141.42), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year, over-expenditures occurred as listed below:

| <u>Activity</u> | <u>Budget</u> | <u>Expenditures</u> | <u>Variance</u> |
|----------------------------|---------------|---------------------|-----------------|
| General Fund | | | |
| Governing Body | \$ 23,557 | \$ 37,365 | \$ 13,808 |
| Elections | 2,050 | 2,551 | 501 |
| Building and Grounds | 11,222 | 13,475 | 2,253 |
| Police Department | 138,932 | 153,217 | 14,285 |
| Crossing Guards | 5,300 | 5,474 | 174 |
| Department of Public Works | 42,091 | 48,616 | 6,525 |
| Major Street Fund | | | |
| Expenditures | 157,100 | 965,639 | 808,539 |

NOTE J - ENDOWMENT FUND

The Fremont Area Community Foundation holds a designated endowment fund which has been reserved for the use of the Village of Hesperia. The fund is not available for general operating purposes but is intended to fund charitable community projects and programs as deemed appropriate by the Village Council and the Community Foundation Board of Trustees. As of March 31, 2008, the fair market value of this endowment fund was \$33,994.

NOTE K - MISAPPROPRIATION LOSS

It has been determined that certain revenues received in the form of cash were embezzled by an employee. Cash monies received in the Water and Sewer Funds were determined to not have been deposited in the Village bank account. The former Utilities Billing Clerk has pleaded guilty to embezzlement and is currently awaiting sentencing. The Village recorded the embezzlement by increasing the unrecorded revenues and booking an offsetting misappropriation loss totalling \$17,468 for the fiscal year ended March 31, 2008. It is not known how much, if any, of these monies are recoverable at this time.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND

Year Ended March 31, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with final Budget - Favorable (Unfavorable)</u> |
|------------------------------|-------------------------|---------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes | \$ 248,100 | \$ 248,100 | \$ 255,198 | \$ 7,098 |
| State revenue sharing | 102,600 | 102,600 | 100,802 | (1,798) |
| Interest and rentals | 16,800 | 16,800 | 18,475 | 1,675 |
| Other revenue | <u>20,128</u> | <u>20,128</u> | <u>18,651</u> | <u>(1,477)</u> |
| Total Revenues | 387,628 | 387,628 | 393,126 | 5,498 |
| EXPENDITURES | | | | |
| Legislative | | | | |
| Governing body | | | | |
| Salaries and wages | 4,720 | 4,720 | 7,430 | (2,710) |
| Transportation | 500 | 500 | 293 | 207 |
| Office Supplies | 1,000 | 1,000 | 1,447 | (447) |
| Professional and contractual | 9,056 | 9,056 | 15,011 | (5,955) |
| Utilities | 1,500 | 1,500 | 2,035 | (535) |
| Community promotion | 200 | 200 | 507 | (307) |
| Workshops and dues | 500 | 500 | 946 | (446) |
| Printing and publishing | 500 | 500 | 1,808 | (1,308) |
| Insurance and bonds | 5,481 | 5,481 | 7,503 | (2,022) |
| Miscellaneous | <u>100</u> | <u>100</u> | <u>385</u> | <u>(285)</u> |
| | 23,557 | 23,557 | 37,365 | (13,808) |
| General Government | | | | |
| Elections | | | | |
| Salaries and wages | 750 | 750 | 797 | (47) |
| Operating supplies | 300 | 300 | 173 | 127 |
| Printing and publishing | 900 | 900 | 1,106 | (206) |
| Miscellaneous | <u>100</u> | <u>100</u> | <u>475</u> | <u>(375)</u> |
| | 2,050 | 2,050 | 2,551 | (501) |
| Village Streets | | | | |
| Salaries and wages | 14,575 | 14,575 | 14,083 | 492 |
| Operating supplies | 200 | 200 | 88 | 112 |
| Repairs and maintenance | 1,475 | 1,475 | 1,187 | 288 |
| Utilities | 350 | 350 | 446 | (96) |
| Capital Outlay | 3,250 | 3,250 | - | 3,250 |
| Miscellaneous | <u>100</u> | <u>100</u> | <u>-</u> | <u>100</u> |
| | 19,950 | 19,950 | 15,804 | 4,146 |

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

Year ended March 31, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with final Budget - Favorable (Unfavorable)</u> |
|---------------------------------------|-------------------------|---------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Clerk | | | | |
| Salaries and wages | 32,260 | 32,260 | 32,167 | 93 |
| Office supplies | 250 | 250 | 446 | (196) |
| Professional and contractual | 800 | 800 | - | 800 |
| Transportation | 100 | 100 | - | 100 |
| Printing and publishing | 200 | 200 | - | 200 |
| Utilities | 1,000 | 1,000 | - | 1,000 |
| Miscellaneous | 110 | 110 | - | 110 |
| | <u>34,720</u> | <u>34,720</u> | <u>32,613</u> | <u>2,107</u> |
| Treasurer | | | | |
| Salaries and wages | 31,042 | 31,042 | 30,091 | 951 |
| Office supplies | 800 | 800 | 863 | (63) |
| Professional and contractual | 200 | 200 | - | 200 |
| Transportation | 60 | 60 | 61 | (1) |
| Utilities | 1,000 | 1,000 | - | 1,000 |
| Printing and publishing | 500 | 500 | 201 | 299 |
| Miscellaneous | 140 | 140 | - | 140 |
| | <u>33,742</u> | <u>33,742</u> | <u>31,216</u> | <u>2,526</u> |
| Building and grounds | | | | |
| Salaries and wages | 2,834 | 2,834 | 3,755 | (921) |
| Office supplies and postage | 600 | 600 | 386 | 214 |
| Repairs and maintenance | 500 | 500 | 221 | 279 |
| Professional and contractual services | 500 | 500 | 961 | (461) |
| Insurance and bonds | 1,169 | 1,169 | 2,087 | (918) |
| Utilities | 5,619 | 5,619 | 6,065 | (446) |
| | <u>11,222</u> | <u>11,222</u> | <u>13,475</u> | <u>(2,253)</u> |
| Total General Government | 101,684 | 101,684 | 95,659 | 6,025 |
| Public Safety | | | | |
| Police Department | | | | |
| Salaries and wages | 103,777 | 103,777 | 107,253 | (3,476) |
| Office supplies | 150 | 150 | 267 | (117) |
| Operating supplies | 1,250 | 1,250 | 625 | 625 |
| Repairs and maintenance | 2,000 | 2,000 | 3,459 | (1,459) |
| Professional and contractual services | 1,350 | 1,350 | 1,462 | (112) |
| Transportation | 745 | 745 | 785 | (40) |
| Gasoline and oil | 6,934 | 6,934 | 9,309 | (2,375) |
| Insurance and bonds | 7,400 | 7,400 | 11,442 | (4,042) |
| Utilities | 3,726 | 3,726 | 6,183 | (2,457) |
| Repairs and maintenance | 1,500 | 1,500 | 3,369 | (1,869) |

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED
Year ended March 31, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with final Budget - Favorable (Unfavorable)</u> |
|----------------------------|-------------------------|----------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Public Safety - Continued | | | | |
| Police Department-Cont. | | | | |
| Miscellaneous | 100 | 100 | 96 | 4 |
| Workshop and dues | 400 | 400 | 378 | 22 |
| Training | 1,500 | 1,500 | 552 | 948 |
| Debt service | | | | |
| Principal | 7,630 | 7,630 | 7,630 | - |
| Interest | 470 | 470 | 407 | 63 |
| | <u>138,932</u> | <u>138,932</u> | <u>153,217</u> | <u>(14,285)</u> |
| Crossing Guards | | | | |
| Salaries and wages | <u>5,300</u> | <u>5,300</u> | <u>5,474</u> | <u>(174)</u> |
| Total Public Safety | 144,232 | 144,232 | 158,691 | (14,459) |
| Public Works | | | | |
| Department of public works | | | | |
| Salaries & wages | 16,726 | 16,726 | 13,058 | 3,668 |
| Operating supplies | 6,000 | 6,000 | 250 | 5,750 |
| Gasoline | 5,000 | 5,000 | 8,285 | (3,285) |
| Repairs & maintenance | 5,865 | 5,865 | 7,327 | (1,462) |
| Insurance & bonds | 2,900 | 2,900 | 4,175 | (1,275) |
| Utilities | 5,500 | 5,500 | 15,521 | (10,021) |
| Miscellaneous | 100 | 100 | - | 100 |
| | <u>42,091</u> | <u>42,091</u> | <u>48,616</u> | <u>(6,525)</u> |
| Street lighting | | | | |
| Public utilities | <u>23,000</u> | <u>23,000</u> | <u>22,297</u> | <u>703</u> |
| Total Public Works | 65,091 | 65,091 | 70,913 | (5,822) |
| Parks | | | | |
| Salaries and wages | 17,759 | 17,759 | 18,050 | (291) |
| Operating supplies | 3,000 | 3,000 | 337 | 2,663 |
| Repair and maintenance | 3,900 | 3,900 | 1,547 | 2,353 |
| Professional services | 900 | 900 | 346 | 554 |
| Gasoline and oil | 550 | 550 | 1,566 | (1,016) |
| Insurance and bonds | 1,100 | 1,100 | - | 1,100 |
| Utilities | 2,855 | 2,855 | 1,052 | 1,803 |
| Repairs and maintenance | <u>1,000</u> | <u>1,000</u> | <u>-</u> | <u>1,000</u> |
| | 31,064 | 31,064 | 22,898 | 8,166 |
| Other | | | | |
| Operating transfers out | <u>28,080</u> | <u>28,080</u> | <u>-</u> | <u>28,080</u> |

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED
Year ended March 31, 2008

| | | | | |
|---|------------------|------------------|------------------|------------------|
| TOTAL EXPENDITURES | <u>393,708</u> | <u>393,708</u> | <u>385,526</u> | <u>8,182</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (6,080) | (6,080) | 7,600 | 13,680 |
| Fund balance - April 1 | <u>67,870</u> | <u>67,870</u> | <u>67,870</u> | <u>-</u> |
| Fund balance - March 31 | <u>\$ 61,790</u> | <u>\$ 61,790</u> | <u>\$ 75,470</u> | <u>\$ 13,680</u> |

Village of Hesperia

BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND

Year ended March 31, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with final Budget - Favorable (Unfavorable) |
|---|-------------------------|-----------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental revenue | | | | |
| State shared revenue | | | | |
| Gas and weight tax | \$ 61,200 | \$ 61,200 | \$ 62,692 | \$ 1,492 |
| State grant | - | - | 835,390 | 835,390 |
| Other revenue | <u>2,100</u> | <u>2,100</u> | <u>1,430</u> | <u>(670)</u> |
| TOTAL REVENUES | 63,300 | 63,300 | 899,512 | 836,212 |
| Expenditures | | | | |
| Construction | | | | |
| Capital outlay | 124,377 | 124,377 | 932,741 | (808,364) |
| Routine maintenance | | | | |
| Salaries and wages | 8,944 | 8,944 | 10,696 | (1,752) |
| Repairs and maintenance | - | - | 37 | (37) |
| Rentals | 1,500 | 1,500 | 2,530 | (1,030) |
| Miscellaneous | 100 | 100 | - | 100 |
| Winter maintenance | | | | |
| Salaries and wages | 5,810 | 5,810 | 5,056 | 754 |
| Supplies | 1,965 | 1,965 | 1,545 | 420 |
| Rentals | 3,000 | 3,000 | 2,358 | 642 |
| Administration, engineering and recordkeeping | | | | |
| Professional services | 2,125 | 2,125 | 1,398 | 727 |
| Debt service | | | | |
| Principal | 5,348 | 5,348 | 5,348 | - |
| Interest | <u>3,931</u> | <u>3,931</u> | <u>3,931</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>157,100</u> | <u>157,100</u> | <u>965,640</u> | <u>(808,540)</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (93,800) | (93,800) | (66,128) | 27,672 |
| Other financing sources (uses) | | | | |
| Operating transfers in (out) | <u>22,000</u> | <u>22,000</u> | <u>-</u> | <u>(22,000)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (71,800) | (71,800) | (66,128) | 5,672 |
| Fund balance - April 1 | <u>76,786</u> | <u>76,786</u> | <u>76,786</u> | <u>-</u> |
| Fund balance - March 31 | \$ <u>4,986</u> | \$ <u>4,986</u> | \$ <u>10,658</u> | \$ <u>5,672</u> |

Village of Hesperia

BUDGETARY COMPARISON SCHEDULE

LOCAL STREET FUND

Year ended March 31, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with final Budget - Favorable (Unfavorable) |
|--|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental revenue | | | | |
| State shared revenue | | | | |
| Gas and weight tax | \$ 28,077 | \$28,077 | \$ 25,832 | \$ 2,245 |
| Other revenue | <u>2,000</u> | <u>2,000</u> | <u>1,430</u> | <u>570</u> |
| TOTAL REVENUES | <u>30,077</u> | <u>30,077</u> | <u>27,262</u> | <u>2,815</u> |
| Expenditures | | | | |
| Construction | 9,054 | 9,054 | - | 9,054 |
| Routine maintenance | | | | |
| Salaries and wages | 7,465 | 7,465 | 6,318 | 1,147 |
| Repairs and maintenance | 1,200 | 1,200 | 643 | 557 |
| Rentals | 1,312 | 1,312 | 233 | 1,079 |
| Winter maintenance | | | | |
| Salaries and wages | 3,329 | 3,329 | 7,413 | (4,084) |
| Repairs and maintenance | 899 | 899 | 994 | (95) |
| Rentals | 1,492 | 1,492 | 3,260 | (1,768) |
| Administration, engineering and recordkeeping | | | | |
| Professional services | 2,233 | 2,233 | 2,191 | 42 |
| Debt service | | | | |
| Principal | 1,783 | 1,783 | 1,783 | - |
| Interest | <u>1,310</u> | <u>1,310</u> | <u>1,310</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>30,077</u> | <u>30,077</u> | <u>24,145</u> | <u>5,932</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | - | - | 3,117 | 3,117 |
| Fund balance - April 1 | <u>22,940</u> | <u>22,940</u> | <u>22,940</u> | <u>-</u> |
| Fund balance - March 31 | <u>\$ 22,940</u> | <u>\$ 22,940</u> | <u>\$ 26,057</u> | <u>\$ 3,117</u> |

The accompanying notes are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

CALVIN D. MEEUSEN, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Village Council
Village of Hesperia, Michigan

I have audited the financial statements of the governmental activities, the business type activities and each major fund of the Village of Hesperia as of and for the year ended March 31, 2008, which collectively comprises the Village of Hesperia's basic financial statements and have issued my report thereon dated June 17, 2008. I conducted my audit with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Hesperia's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as items 08-02 and 08-03.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Hesperia's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the Village of Hesperia's internal control over financial reporting. However, I noted certain deficiencies involving the internal control over financial reporting and its operation that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Hesperia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of

Hesperia's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. I consider the deficiency described in the accompanying Schedule of Findings and Responses as Item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Hesperia's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I believe that the significant deficiency described above is a material weakness.

The Village of Hesperia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Village of Hesperia's response and, accordingly, we express no opinion on it.

This report is intended for the information of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Calvin D. Meeusen C.P.A. PLLC". The signature is written in a cursive, flowing style.

Calvin D. Meeusen C.P.A., PLLC
June 17, 2008

Village of Hesperia

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ending March 31, 2008

SUMMARY OF AUDIT RESULTS

1. The Auditor's Report expresses an unqualified opinion on the financial statements of the Village of Hesperia, Michigan.
2. One significant deficiency was disclosed during the audit of the financial statements and is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This condition is reported as a material weakness.
3. Two instances of noncompliance with State laws and regulations were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

08-1. Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel and the lack of supervision and compliance with existing Village policies.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can consistently act as a "check" on another. Village accounting policies must be constantly monitored and adhered to by all personnel.

Effect: The integrity of the accounting records and the Village's mandate to safeguard its assets could be compromised.

Cause: Virtually all of the important accounting functions are done by only two part time appointed officials and one part-time person (since terminated). None of them perform accounting functions on a full-time basis. Supervision is minimal and in large part was responsible for a material defalcation of Water and Sewer Fund monies during the fiscal year ended March 31, 2008. The Village of Hesperia has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Control procedures should be established and maintained that ensure that village accounting policies are being followed by all involved in the accounting process. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Village of Hesperia

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ending March 31, 2008

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED
SIGNIFICANT DEFICIENCY - CONT.

08-1. Cash Receipts and Cash Disbursements - Cont.

Response: Management concurs with the recommendation.

FINDINGS - COMPLIANCE ISSUES

08-02 Deficit Fund Balance

Condition: The Water Fund had a deficit balance in its unreserved Net Assets of \$40,173. This situation is a carryover from the prior fiscal year. A deficit condition means a situation where, at the end of its fiscal year, total expenditures, including an accrued deficit, exceeded total revenues, including any surplus carried forward. The Village formulated and filed a deficit elimination plan dated August 22, 2007, which is beyond the 90 day limit set by statute. This plan is currently in effect and the Village is ahead of schedule in eliminating the deficit fund balance.

Criteria: The Village is required to formulate and file a deficit elimination plan within 90 days after the beginning of the fiscal year to correct this condition.

Directive: The Village is currently working with the existing deficit elimination plan and will not file a new one, given that the current plan is on schedule and there haven't been any major changes in the Villages circumstances concerning the Water Fund.

08-03 Budgetary Procedures

Condition: The Village exceeded budget in several departments and/or funds and did not make any budget amendments during the fiscal year that anticipated this overspending. The department funds for whom expenditures exceeded budget are as follows:

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Expenditures</u> | <u>Variance</u> |
|-----------------------|----------------------------|-------------------------|---------------------|-----------------|
| General Fund | | | | |
| Governing Body | \$ 23,557 | \$ 23,557 | \$ 37,365 | \$ 13,808 |
| Elections | 2,050 | 2,050 | 2,551 | 501 |
| Building and Grounds | 11,222 | 11,222 | 13,475 | 2,253 |
| Police Department | 138,932 | 138,932 | 153,217 | 14,285 |
| Crossing Guards | 5,300 | 5,300 | 5,474 | 174 |
| Dept. of Public Works | 42,091 | 42,091 | 48,616 | 6,525 |
| Major Street Fund | | | | |
| Expenditures | 157,100 | 157,100 | 965,639 | 808,539 |

Village of Hesperia

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ending March 31, 2008

FINDINGS - COMPLIANCE ISSUES - CONTINUED

08-03 Budgetary Procedures - Cont.

Criteria: A budget is required by the State Constitution and by State Statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

Directive: Budget amendments should be anticipated and then made when appropriate and adequately documented in the Council minutes.

Village of Hesperia

Corrective Action Plan
2008

United States Department of Agriculture
Rural Development Division

Village of Hesperia, Michigan, respectfully submits the following summary schedule of audit findings for the year ended March 31, 2008.

Name and address of independent public accounting firm:

Calvin D. Meeusen, C.P.A., PLLC
600 S. Beacon Blvd., Suite 1A
Grand Haven, MI 49417

Audit period: April 1, 2007 to March 31, 2008.

The findings from the March 31, 2008 findings and responses are discussed below. The finding is numbered consistently with the number assigned in the prior schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Deficiency

08-1 Cash Receipts and Cash Disbursements

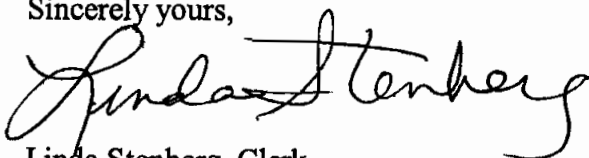
Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel and the lack of supervision and compliance with existing Village policies.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Control procedures should be established and maintained that ensure that Village accounting policies are being followed by all involved with the accounting process. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Action taken: Management concurs with the recommendation. The segregation of duties condition is inherent, a practical remedy is not feasible. They will attempt to put control procedures into place that will accomplish their objective and adequately monitor them.

If the Department of Agriculture, Rural Development Division has questions regarding this plan, please call Linda Stenberg at (231) 854-6205.

Sincerely yours,



Linda Stenberg, Clerk
Village of Hesperia, MI

CALVIN D. MEEUSEN, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

**600 S. BEACON BLVD., SUITE 1A • GRAND HAVEN, MI 49417-2178
(616) 846-6210 FAX (616) 846-5111**

**348 S. WAVERLY RD., SUITE 126 • HOLLAND, MI 49424-8102
(616) 395-8477**

June 17, 2008

Honorable Village Council
Village of Hesperia
Hesperia, Michigan

In connection with my examination of the financial statements as of March 31, 2008, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Hesperia for the year ended March 31, 2008, and have issued my report thereon dated June 17, 2008. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Hesperia to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Hesperia is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls may not be adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Hesperia may occur and not be detected within a timely period by Village personnel in the normal course of their duties. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

Defalcation - Water and Sewer Receipts - It was discovered that the former utility billing clerk had been misappropriating water and sewer receipts received in the form of cash over a period of several months in 2007. Contributing factors were a lack of supervision and adherence to Village accounting procedures. The amount of loss is estimated at \$17,468. It is not known how much, if any, of these monies are recoverable by restitution. A written report has been made to the Michigan Department of Treasury under separate cover. The utilities billing clerk is believed to have been bonded and I recommend that inquiries be made to the bonding agent about any possible recoveries by the Village.

Cash - The cash reserves for the General Fund is in a positive position and the cash in the combined Water and Sewer Funds is also a positive balance. There are some cash reserves in the Major and Local Streets Funds but these are restricted monies and not available for general operating purposes.

The cash balances in the Water and Sewer Funds has substantially improved. The cash situation remains very tight and I recommend that the village continue to monitor revenues and expenditures closely to ensure that the Village can continue to provide essential services. There should be, in all funds, a minimum of four months of operating expenses in the form of cash. At March 31, 2008, none of the funds were at that level. In addition, the Water Fund still owes \$70,005 to other funds and this amount was unchanged from one year ago. To the extent possible, the Village should try to pay this down as soon as practicable.

Accounting Software - The Village's current accounting system is entirely manual, with the exception of water and sewer billing. There has been some movement to have all of the fund computerized over the next fiscal year. I concur with this decision. Furthermore, I also recommend that an integrated approach be adopted during this transition, meaning that the Water and Sewer billing system would ideally be compatible with and integrated with the General Ledger software package to be used for all of the funds.

Payroll Reporting - I have previously recommended that the Village contract with an outside payroll service to process your payroll, as they can do it much more efficiently and cheaply than doing it in-house. This has recently been done.

Do to/Due From's - Interfund borrowing is slightly improved but still largely unchanged from last year and given that cash reserves for the affected funds are still quite low, it is likely to continue to remain so. The Village Council is encouraged to continue to contain expenses so as to have the ability to repay these interfund loans in the near future. This recommendation is a carryover from last year.

Budgeting Concerns - The Village again had significant budget violations of P.A. 621. There were no budget amendments passed by the Village Council during the past year and it is important that you monitor the budget in a more meaningful way on an ongoing basis. Amendments should be made when appropriate and adequately documented in the Council minutes. It appears that the budgeting process was much improved for the adoption of the budget for the 2007-2008 fiscal year and the 2008-2009 fiscal year. This recommendation is a carryover from last year.

Honorable Village Council
Village of Hesperia

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Deficit Fund Balance - The Village continues to have a deficit in it's unreserved total net assets in the Water Fund. As previously mentioned, the water rates have been increased but management should consider if any other appropriate measures should be taken. A deficit elimination plan is in effect and the Village is currently ahead of schedule in eliminating the deficit in total net assets in the Water Fund.

Employee Training - Village management should, to the extent possible, arrange to have employees cross trained in each others jobs. This would help ensure continuity in providing service to Village residents and in maintaining the accounting records in case of illness, vacations or other extended absences. This recommendation is a carryover from last year and the Village has made a limited attempt to comply.

Subsequent Event - Employee Training - The Village has appointed a new Clerk and Treasurer who commenced their employment in April, 2008. There was no transitional time for training between them and their predecessors. I **strongly** recommend that Village management make a special effort to make any and all arrangements necessary to train them to properly execute their administrative responsibilities and to maintain the accounting records of the Village in a manner consistent with State mandated policies.

All of these comments and recommendations have been discussed and reviewed with the finance committee.

In conclusion, I wish to say that my staff and I are very appreciative of the courtesy and assistance extended to us during the engagement. The above comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss these comments and recommendations.

Respectfully submitted,

Handwritten signature of Calvin D. Meeusen in black ink, followed by the text "C.P.A. PLLC".

Calvin D. Meeusen, C.P.A., PLLC